

Message Text

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ACTION NEA-13

INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

RSC-01 PRS-01 SPC-03 SS-20 AGR-20 AID-20 EB-11

CIEP-02 TRSE-00 STR-08 OMB-01 CEA-02 COME-00 ABF-01

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEIDATE 9319

INFO AMCONSUL BOMBAY

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E.O. 11652: N/A

TAGS: EAGR, PINS, IN

SUBJECT: CURRENT FOODGRAIN SITUATION AND POLITICAL IMPACT

SUMMARY: THE FALL 1973 FOODGRAIN HARVEST HAS BEEN APPRECIABLY ABOVE PREVIOUS LEVELS. NONETHELESS, PRICES HAVE REMAINED HIGH. THE STATE GOVERNMENTS HAVE BEEN RELUCTANT TO PUSH GRAIN PROCUREMENT EFFORTS AND THUS OFFEND LARGER LANDOWNERS AND MILLERS, UPON WHOM THEY DEPEND FOR POLITICAL SUPPORT. FAILURE TO PROCURE SUFFICIENT FOODGRAINS HAS MEANT EVER SHORTER RATIONS FOR THE POOR IN URBAN AND SOME RURAL AREAS, WHO DEPEND ON GOVERNMENT DISTRIBUTION CENTERS. THEY HAVE RESPONDED WITH SOMETIMES VIOLENT DEMONSTRATIONS, ESPECIALLY IN GUJARAT. TO INCREASE THE FREE MARKET SUPPLY OF GRAIN, ALBEIT AT HIGH PRICES, THE GOI HAS PARTIALLY RELAXED ITS CONTROLS ON FOODGRAIN MOVEMENT. IT IS ALSO REPORTEDLY NEGOTIATING WITH CANADA FOR INCREASED IMPORTS. THE LONG-TERM OUTLOOK IS FOR CONTINUED SHORT SUPPLIES, URBAN AND RURAL VIOLENCE, AND

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POLITICAL INSTABILITY AT THE STATE LEVEL. END SUMMARY

1. THE 1973 FALL HARVEST OF FOODGRAINS IS CURRENTLY ESTIMATED AT ABOUT 66-67 MILLION METRIC TONS COMPARED TO 57.2 MILLION TONS IN 1972, AND AN AVERAGE OF 62.90 MILLION TONS IN THE PRECEEDING FIVE YEARS. FOLLOWING THE FALL 1973 HARVEST, FOODGRAIN PRICES HAVE NOT SHOWN THEIR NORMAL SEASONAL DECLINE. THE ALL-INDIA OFFICIAL INDEX OF WHOLESALE FOODGRAIN PRICES IN DECEMBER 1973 AVERAGES 305 -- ABOUT 6 PERCENT HIGHER THAN IN SEPTEMBER 1973, THE PRE-HARVEST MONTH, AND 21 PERCENT HIGHER THAN IN DECEMBER 1972. ALONG WITH AN UNUSUALLY GOOD 1973 FALL HARVEST OF FOODGRAINS, THE GOI IMPORTED APPROXIMATELY 1.6 MILLION TONS OF FOODGRAINS DURING THE LAST 3 MONTHS OF CALENDAR YEAR 1973.

2. DISTRIBUTION PROBLEMS RESULTED LARGELY FROM THE INABILITY OF THE GOI TO PROCURE THE EXPECTED QUANTITIES OF FOODGRAIN FROM THE 1973 FALL HARVEST. GOVERNMENT PROCUREMENT TO DATE FROM THAT HARVEST TOTALS ABOUT 3.03. MILLION METRIC TONS. PRESENT INDICATIONS ARE THAT TOTAL PROCUREMENTS IN THE CURRENT MARKETING SEASON WILL BE IN THE 4-4.5 MILLION TON RANGE AND THAT THE 6.65 MILLION TONS TARGET WILL NOT BE ACHIEVED. MAJOR REASONS FOR THE LAG IN GOVERNMENT PROCUREMENT OF GRAIN ARE:

- A. DISPARITY BETWEEN GOVERNMENT PROCUREMENT PRICES AND OPEN MARKET PRICES--WITH THE LATTER BEING MUCH HIGHER.
 - B. A DESIRE ON THE PART OF FARMERS, GRAIN MERCHANTS, AND PRIVATE HOUSEHOLDS WITH ADEQUATE FINANCIAL RESOURCES TO HOLD OR BUILD UP RESERVE FOODGRAIN SUPPLIES, BECAUSE OF THE UNCERTAIN FUTURE.
 - C. RELUCTANCE ON THE PART OF THE GOVERNMENT TO FORCE FARMERS, RICE MILLERS, AND GRAIN DEALERS TO SELL A LARGER SHARE OF THEIR GRAIN TO GOVERNMENT AGENCIES.
- THE CONGRESS STATE ORGANIZATIONS DEPEND HEAVILY ON THE LARGER FARMERS AND MILLERS FOR POLITICAL AND FINANCIAL SUPPORT.
- D. A DECLINING POPULAR FAITH IN THE VALUE OF THE RUPEE--LANDOWNERS WANT AGRICULTURAL INPUTS -- NOT MONEY-- IN RETURN FOR GRAIN.

3. THE UNSATISFACTORY DISTRIBUTION OF FOODGRAINS IS ALSO DUE TO THE RESTRICTION ON THE MOVEMENT OF GRAIN BETWEEN DISTRICTS LIMITED OFFICIAL USE

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WITHIN STATES AND, UNTIL THIS PAST WEEK, PROHIBITION AGAINST ALL GRAIN MOVEMENTS ACROSS STATE BOUNDARIES WITHOUT GOI APPROVAL. LIFTING THESE RESTRICTIONS WOULD LOWER THE FREE MARKET PRICE OF GRAIN BUT NOT HELP THE RATION-DEPENDENT POOR. LED BY STUDENTS, OPPOSITION PARTY LEADERS, AND LEFTIST TRADE UNIONS, THE URBAN POOR HAVE ENGAGED IN FOOD RIOTS IN GUJARAT OVER THE LAST THREE WEEKS. THE RURAL POOR IN RICE-RICH SURAT DISTRICT AND OTHER AREAS SPECIALIZING IN CASH CROPS,

SUCH AS COTTON AND PEANUTS, HAVE ALSO SPORADICALLY ATTACKED GOVERNMENT RATION SHOPS AND PUBLIC AND PRIVATE GRAIN DEPOTS. SIMILAR DISTURBANCES MAY WELL OCCUR IN OTHER GOODGRAIN DEFICIT STATES SUCH AS MAHARASHTRA, BIHAR, KERALA, AND WEST BENGAL IN COMING WEEKS.

4. IN AN EFFORT TO IMPROVE THE FOODGRAIN SUPPLY SITUATION IN DEFICIT AREAS, THE CENTRAL GOVERNMENT DECIDED DURING THE PAST WEEK TO ALLOW REGULATED MOVEMENT OF COARSE GRAINS FORM SURPLUS TO DEFICIT STATES. GOVERNMENT AGENCISE IN GUJARAT AND MAHARASHTRA HAVE BEEN AUTHORIZED TO PURCHASE AND TRANSFER SPECIFIED QUANTITIES OF SURPLUS COARSE GRAIN FORM PUNJAB AND HARYANA TO DEFICIT AREAS WITHIN THESE STATES. RESTRICTIONS ON INTER-STATE MOVEMENT OF ALL GRAINS BY PRIVATE TRADE WILL, HOWEVER, CONTINUE AS BEFORE. THE GOI HAS ALSO RECOMMENDED TO STATE GOVERNMENTS THAT THEY RELAX RESTRICTIONS ON THE MOVEMENT OF GRAIN BETWEEN DISTRICTS WITHIN STATES. THE GUJARAT STATE GOVERNMENT HAS PERMITTED WHOLESALE WHEAT TRADERS TO RESUME THEIR BUSINESS AT LEAST TEMPORARILY IN AN EFFORT TO IMPROVE SUPPLIES. CONSUMERS IN THE BOMBAY RATIONING AREAS ARE NOW ALLOWED TO BRING WITH THEM AS PERSONAL BAGGAGE FROM OTHER AREAS UP TO 10 KG OF RICE, WHEAT, SORGHUM OR ANY COMBINATION OF THESE GRAINS, AS AGAINST FIVE KG. PREVIOUSLY.

5. EMBOFF WAS INFORMED BY AN AUSTRALIAN OFFICIAL IN NEW DELHI THAT GOI HAS DROPPED THE IDEA OF PURCHASING 200,000 TONS OF WHEAT FROM AUSTRALIA BECAUSE OF HIGH PRICES. THE SAME OFFICIAL SAID THAT AFTER BREAKING OFF NEGOTIATIONS WITH AUSTRALIA, THE GOI ASKED CANADIAN OFFICIALS IF THEY COULD PROVIDE ONE MILLION TONS OF WHEAT ON A GRANT BASIS. CANADIAN OFFICIALS DECLINED AND ALSO SAID THEY COULD NOT SUPPLY ON MILLION TONS OF WHEAT EVEN ON A COMMERCIAL BASIS FORM THEIR CURRENT SUPPLY. GOI OFFICIALS THEN ASKED ABOUT BUYING 500,000 TONS ON CREDIT LIMITED OFFICIAL USE

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